Schroders

News Releases

Schroders New York appoints Chief Operating Officer

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Schroders plc has appointed Mark Hemenetz as Chief Operating Officer of its North American business. Mark will be based in New York and will report directly to Peter Clark, Schroders' North America Head.

Mark will play a key role in implementing the Group's operating strategy in the Americas. Most recently with The Bank of New York in the US, Mark held a number of senior roles there over the last twenty years, his last role being Executive Vice President & Director of Investment Management.

Peter Clark, Schroders' North America Head, commented;

"I am delighted to welcome Mark to the team at Schroders and look forward to working closely with him going forward as we build our business in the Americas."

Ends

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Notes to Editors

Schroders is a global asset management company with £88.3 (€135.7 / $142.3) billion under management as at 31st December 2002. Our clients include charities, corporations, high net worth individuals, insurance companies, local and public authorities, pension funds, and retail investors.

Our aim is to apply our specialist asset management skills in serving the needs of our clients worldwide and in delivering value to our shareholders. With one of the largest networks of offices of any dedicated asset management company and over 250 portfolio managers and analysts covering the world's investment markets, we offer our clients a comprehensive range of products and services.

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Corporate & Institutional: **www.schroders.com**
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TAB 11

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FD (Fair Disclosure) Wire

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BODY:

MICHAEL DOBSON, CEO, SCHRODERS PLC: Welcome. As we said at the beginning of this year, 2006 we see as a year of consolidation for Schroders after four years of very rapid profit growth. As the story of the significant increase in gross margins begins to run its course, as we see equity markets at the very least growing more slowly, and importantly, as we invest quite significantly more and marketing, in product-development spend and business development and talent, and not least in infrastructure upgrades. We're still seeing that. This year we see as a year of consolidation for Schroders as we build the platform for growth for the next four years. But having said that, we had a very strong increase in underlying profitability in the first half, up nearly 30% to 132 million pounds once you take out that exceptional payment linked to the end of the IT outsourcing project in the first half of last year.

We had very welcome return to growth in our retail business, a sharp rebound after the hiatus in the second half of last year. But we had disappointing outflows in institutional linked basically to two -- primarily anyway to two asset classes, UK balance mandates, the continuation of the story here for the last few years, but also Japanese and Japanese-linked equity mandates.

We had a very strong performance in the private bank with a significant increase in profits, and we had some good early signs of progress from our acquisition, NewFinance Capital.

Jonathan will talk you through the details of the numbers. I will come back and talk about the trends in the business.

JONATHAN ASQUITH, CFO, SCHRODERS PLC: Thank you, Mike. Good morning, everyone.

As Michael said, an increase in underlying profits of 28%, so for a year of consolidation, it's not a bad year.

Looking at the underlying numbers then, headline profit before tax -- 132.3 million against the first half of 2005 of 133.5, or underlying 103.1. I will go into these underlying calculations again in a minute, just to make sure that everybody is clear on them.

Asset Management profit before tax up an underlying 30-odd% at 96.8 million compared to 79.7. Private banking, very strong performance -- 11.2 million in the first half against 1.9 million underlying in the first half of last year.

Private equity, broadly unchanged -- 17.7 million pounds against 18 for the equivalent period last year. Funds under management, pretty well unchanged over the six months period. They are up about 9% on where they were at the end of June last year. The interim dividend up 7% (indiscernible) to 7.5p.

Those of you who were here at the equivalent meeting last year will remember the presentation in which I very carefully split out the exceptional payment that we received from JPMorgan for the termination of our outsourcing project with them. That was 20.4 million pounds, split 20.1 million pounds to the Asset Management business and 0.3 million to the private banking business. You will also remember that I said that the termination of this outsourcing arrangement would lead to increased costs for Schroders. We will see some of those cropping up later on in the presentation.

So the first part of our normal work flow chart is, if you like, to [rebase] the first half of last year down to its underlying profits for the 103.1 million pounds. So avoid distorting the underlying operating picture for the business.

So from there, Asset Management gross profits, which remember are gross income less third-party distribution fees that we pay away directly, is up 20%, 50 million pounds to 300.4 million.

I don't know how many of you have looked at the level of pay-aways in relation to this business. Now, if you do look carefully, you'll see two things. We are relatively stable at 20% approximately of gross income. They've been rising gently as retail gets to be a greater proportion of our overall business. They are distorted in the second half of the year by the fact that that's the time when we receive our performance fees and typically you don't share performance fees with your distributors, so they are higher as a percentage of revenues in the first half than the second. But the important thing is they are relatively stable.

That was the revenue picture -- and it's a revenue picture given by business mix and by volume of funds under management. The cost picture again an increase of almost exactly the same amount, 20%. What was underneath this? Staff costs went up by 13% and increased to 16 million pounds. Other costs went up by a considerable 37%, an increase of comparable size in money terms of about 18 million pounds.

What was behind this increase? I think there were really three factors. The first is we increased our marketing spend substantially in the first half of this year compared to the first half of last year. It was up about 45% period-on-period. You will remember, at the end of last year, we said that we were going to increase marketing, particularly on the retail side, to try and deepen our relationships below the key international distributor level to get closer to the underlying class for buying our funds. That involves considerable spend on brand and brand awareness.

The second part and the largest part is the unwinding of the Symphony arrangement. That's the outsourcing arrangement with JPMorgan. Not only did we receive a substantial one-off payment in the first half of last year for doing that, but we also took on extra running costs as a result. Indeed, that was partly what the payment was intended to compensate us for. Those (indiscernible) we said we would, we reckon, be able to absorb within the overall running costs of the business over a two-year period. To do that requires us to invest in new systems and also to take on, directly, responsibility for some of the things that JPMorgan was doing for us. The net effect of those overall is a rise, half year on half year, of equivalent costs of about 10 million pounds, compared to the first half of last year or about 6 million pounds in relation to the second half of last year.

As I said, we do expect this cost increase to tail off, and in particular, we should see a reduction related to reducing headcount in the second half of this year, which will show through in the first half of next.

The second thing we're doing on the infrastructure side is three major strands of investments assistance. Performance attribution and performance measurement, where we are bringing in a complete new system to streamline our reporting in that area and automated substantially more of this than in the past. A master book of records system which replaces the underlying systems that were originally (indiscernible) JPMorgan, which are nearly 30 years old and definitely due for replacement. Indeed, some of them are written [Cobalt], if any of you can remember Cobalt. Finally, a major stream of work on improving our handling of derivatives -- very much a topical issue, I think, in the asset-management industry. Those are the three contributors to other costs.

The net effect of all of this is that underlying Asset Management profit goes up by 17.1 million pounds -- again, an increase of, broadly speaking, 20% on the comparable period in the previous year.

Private banking -- underlying -- private banking had a cracking first half. Michael will tell you the story behind it, but as you can see from the figures here, it is a revenue story overwhelmingly. It's a revenue story really across the board -- Switzerland, UK, Channel Islands, in fund management, in transaction banking, and in underlying lending services. Average funds under management in private banking rose from 6.6 million pounds over the average of the first half of last year to about 8.2 billion pounds in the first half of this year, so there was a significant increase in business volume as well.

Next year, we expect further advances on the cost space in private banking. We are centralizing our back-office for private banking (indiscernible) which has substantial client service improvements built into it. We do expect also to see some cost reduction as a result of doing that.

Private equity -- it's rather sad on this chart, -0.3. We made 17.7 million pounds from private equity, and that brought us, in the first half of 2006, against 18 million in the first half of 2005. Those of you who are familiar with the

business will know that the majority of items reported under this heading are the run-off of the legacy portfolio, Schroder Ventures Investments, which is detailed part extensively in appendices to the slides. That is a process which is still going on. I've not announced where we are reinvesting, and we are reinvesting private equity really only in areas which generate asset management fee income for the business. That is in our very successful series of private equity funds-to-funds which we launched and completed our third in this half year, and we've had close on EUR1 billion of funds under management under that segment now. In our repackaging of other (indiscernible) funds where we will be launching our -- or in fact we have launched our second Sapphire product, confusingly known as Sapphire 4, to repackage [Premira] 4 for smaller investors this summer and the very successful Gresham private equity funds that we run in our property business.

Group net income and costs -- if you take the income as the sum of income on seized capital, income on investments and interest income, sum total, it was up about 12% year-on-year, 19.5 million in the first half of 2005 to 21.9. In the first half of 2006, administered expenses over the same period were broadly flattened. For those of you, that's about 15, 15.5 million. Those of you who are interested in these things, the staff component of the administered expenses is about one-third of the total.

The overall picture then -- underlying profit growth up 28% from 103 to 132.3. Headline profit growth, rather more modest. But all in all, I think a half year to be reasonably proud of.

Capital picture -- at the total level, there has been little change in the capital position since the end of 2005 -- very little change, 0.3 million in 1.34 billion. What you'll see when you look at the figures are two lines that stick out. The first is the increase in other operating capital, which seems to be inexorable over the last year. The vast majority of that increase represents dividends retained in our operating subsidiaries not yet paid out to the parent. Carried interests in funds which are recognized in equity but not in profit/loss account until they are paid, a new capital in our life company that launched last year; that's about 5 million, the capital NFC, NewFinance Capital, which is about 5 million pounds was well. So those are the main things that have come in over the last six months in other operating capital. Remember, in the life company and in NFC, those capital bases are not necessarily was required to support them from a regulatory perspective. Now, the capital which is in them as corporate entities.

On top of that, you'll also see the goodwill line, 24.6 at the end of 2005 going to 77.9, and that is the goodwill associated, again, with the acquisition of NewFinance Capital.

Dividends and earnings per share -- a 7% increase in interim dividend to 7.5p. That is, by my reckoning, let's see, 2003 was 5.5p; 2004, 6.5p; 2005, 7p; 2006, 7.5p, so continuation of a fairly steady trend in improving the interim dividends and reasonable levels of earnings per share and dividend cover.

Finally, gross profit margins -- these are the gross profit margins in the Asset Management business. 49 basis points in the first half of 2005, rising to 52 basis points in the second half of 2005. Remember that the second half of the year is when we get the vast majority of the performance fee flows. Now 51 basis points in the first half of 2006. Because these numbers are relatively close together, I can give you them with decimal points -- 49.3 in the first half of 2005; 51.3 in the first half of 2006. So you have an increase in margins there of about 2%, or about 4%, I beg your pardon.

Performance fees, illustrating the point I made, 1 basis point in the first half of 2005; 3 basis points in the second half; or 1 basis point in the first half of 2006. That's a pattern which is simply due to the fact that many of our performance fees are calculated on a calendar year basis.

I think that completes the statistical summary of the results. Perhaps I will hand you back to Michael.

MICHAEL DOBSON: So, in Asset Management, as Jonathan said, profits up 21%; revenues up [25.1]%; gross margins up about 4%. If you take the Asset Management and the private banking business together, we are now at 55 basis points in terms of our gross margin. That's up 40% from below 40 basis points in 2001, so this has been a very fundamental shift in the business mix and in our pricing strategy.

Costs -- Jonathan has talked about the cost increase. On the staff side, the increase is entirely variable staff costs linked to revenue growth. In the first half of the year, staff costs were 48% of operating revenues, down from 50.7% of operating revenues in 2005. We've been bringing that compensation to revenue ratio down by between 2 to 3% a year for the past few years.

We return to strong inflows in retail but we had 2.5 billion of outflows in this institutional, principally accounted for by Japanese equities and UK balanced.

Turning to the retail business, 2.3 billion of net inflows in the first half. That's against outflows of 1.6 billion in retail in the second half of last year, so a very significant turnaround. That 2.3 breaks down into 1.9 billion of inflows in the first quarter and 400 million of inflows in the second quarter. We see that trend as very much mirroring the industry experience, as market volumes volatility dampened retail investor appetite. We think our performance in the second quarter was quite competitive with some of our competitors, particularly in (indiscernible) Europe seeing net redemptions in that period.

We had a very good performance in our UK retail business with inflows, net inflows of 1.1 billion pounds in the UK in the first six months. It was well-diversified across a range of UK and European equities across fixed-income and across multi-management products. We've had good flows in Asia, particularly into emerging market equities. Flows in Europe were concentrated largely on European equities. It is particularly, I think, good to report that what had been a great strength for us in European equity retail a year or two ago, we had that problem with capacity constraints and some manager changes in the latter part of last year. We now think we're solidly back on track with a very strong European team, and we had significant traction in that business.

The majority of reported flows in our retail business are accounted for by distributors switching between funds, often for asset allocation reasons. This is why turnover in our retail business was so high. We've been looking at how we present these numbers to try and exclude some of these switches. Where there is no change in the client, the distributor, and where there often is exposure (indiscernible) funds doesn't change. He's just moving between one fund or another. If you'd like to go into more detail on that, we will be quite happy -- Jonathan will be quite happy to answer your questions later on.

As you know, we have moved into U.S. retail recently. We've made good progress with this U.S. intermediary business. We have registered ten funds across the range of domestic U.S. and international equity asset classes, and also fixed-income, domestically and internationally. We signed up with a number of distributors. We are in the process of signing up more distributor relationships. We have a sales team in place in New York. We have a growing pipeline of new business and we are already seeing inflows. So I'm quite excited about this project, which nevertheless is very much a long-term project for the Firm.

We did not have a good six months in institutional. We had outflows of 4.6 billion pounds. This was principally in two areas, UK balanced and the Japanese equities and pan-Pacific equities, because of the Japanese influence on those pan-Pacific portfolios.

We have had performance issues in two important asset classes. The first is Japanese equities, which I think we've talked about here before. The second is a subset of our UK equity products. More than two-thirds of our UK equity products are performing very well, but we have had some issues in performance in relation to some of them. That is why there has been a slight deterioration in the proportion of institutional funds above benchmark in the three years at the end of June. When we talked about this six months ago, the number was 61%; it has slipped slightly to 58%, because of these two issues.

If we looked at this chart on an -- not on an asset-rated basis but on an asset-class basis, you'd see a very different picture. We have 11 asset classes performing very strongly against 2 performing less well. We have taken steps to address this in our Japanese equities business. We have strengthened the management team; we've made some adjustments for the process. I'm pleased to say we are seeing much better results coming through this year. But we will, I think, have some continued client losses in that category due to the performance going back two or three years.

On the UK side, again we've made some modifications. It is very much a minority part of our total UK business and we think we've addressed that is well. But again, there may be some issues -- [climate] issues around that going forward.

On the retail side, the number remains pretty much the same as it was six months ago. Approximately two-thirds of our retail funds are in the first or second quarter.

We were funded with 4.2 billion pounds of new institutional mandates in the first six months of this year, coming principally in European equities and in alternatives. That's to say a private equity fund-to-fund that Jonathan referred to, hedge fund-to-funds, property and emerging market debt.

We have strengthened our sales force, our business development capability, particularly here in the UK and that's been quite widely recognized. We picked up an award the other day for the most high-quality (indiscernible) in the UK institutional marketplace. We've broadened the client base that we are addressing in this segment, and we are for exam-

ple getting traction now in the insurance sector. We've also brought on a number of new products, many of them absolute-return products like strategic bond and diversified growth, which are getting traction in the UK institutional marketplace.

The private bank, as Jonathan said, had a very good six months, continuing the turnaround progress of the last four years. Revenues up 31%, and these revenues, as we pointed out in the management segment, included some transactional related banking fees, which won't necessary be repeated in the future, but the underlying trend in that business we see as very positive and profits of 11.2 million pounds in the first half means that the private bank is now, for the first time, making a substantial contribution to group profitability. We have 3 million pounds of net new business inflows in the private bank in the past six months. Again, as Jonathan mentioned, we are investing to consolidate our London private banking back-office onto to our highly efficient ZÃ¼rich platform, which we think will result in the better sales to clients and some quite significant efficiency gains beginning for us in the second half of 2007. In the meantime, we're taking the costs upfront. The benefit will come through in the second half of next year.

NewFinance Capital, our funded hedge funds acquisition, we completed on the 3 of May. We transferred our hedge fund-to-fund assets and business and people into their business. Combined, we now have 1.7 billion pounds under management in funds of hedge funds. Since we acquired NewFinance Capital, they have won a net $300 million of new business. They are bringing on some interesting new products. Their commodities fund is performing well. It's a new product that's now for $370 million, and it's growing rapidly. We see the business pipeline, the new business pipeline building as we take advantage of the Schroders distribution capability.

So in summary, in the first six months, underlying profits of 28%, as I said and as we said, six months ago, we are investing critically in the business and taking this year as a year of consolidation. We continue to see good opportunities in our retail business in the UK, in Europe, in Asia, and in the United States. We have some performance challenges in two important asset classes; we've taken steps to address them. It will take time for that to work through and I believe absolutely that the right steps have been taken, but we will still see some backwash from that going forward. Finally, nothing new here -- we do expect to be able to use our surplus capital to make complementary acquisitions, such as the NFC acquisition, going forward.

So thanks a lot and we are very happy to take your questions.

MICHAEL DOBSON: If you could just -- I think there should be a microphone somewhere. There's a microphone. If you could just introduce yourself, we are happy to have your questions.

JOANNE NADER, ANALYST, LEHMAN BROTHERS: [Joanne Nader] from Lehman Brothers. I wonder if you could talk a little bit about the institutional opportunity in the insurance segment and what you're doing there, and where you think sort of the profitability of that segment could be and what it could sort of do to your assets over the near term.

MICHAEL DOBSON: For us today, it's quite small. But we have won some important mandates with some quite new products, absolute-return products, for example. Highway insurance was an example of a new client that we picked up earlier this year. So it something we are measuring. Do you want to expand on the insurance opportunities here in the UK?

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes, (indiscernible) insurance opportunity overall. This is a segment that probably that asset management industry (indiscernible) in time and there are two major components of this. The one that is related to the retail market and the unit links were we've probably been already active. It has been a growing segment and we can improve our focus on the coverage of that segment. The other, which is the most unexplored, is the related to capital (indiscernible) reserve on the insurance industry.

Now, clearly, there are huge differences in the strategies of insurance companies, where you see that, in continental Europe, most of the insurers have defined asset management after (indiscernible) around it as a core component of their business, especially a large ones, in the UK and the U.S. and parts of Asia. Actually, they are getting out of not entering into asset management. For those, we do have an opportunity and we built a specific team within distribution with (indiscernible) expertise to tackle the opportunity. We're probably having and building now the biggest pipeline we've ever seen in the Company, in that sector.

JOANNE NADER: Is the profitability on insurance assets similar to other institutional mandates, or is it lower?

UNIDENTIFIED COMPANY REPRESENTATIVE: To our experience to date, it's very similar to what the other institutional mandates.

JOANNE NADER: Okay.

UNIDENTIFIED AUDIENCE PARTICIPANT: Good morning. (indiscernible). I have three questions. The first one is related to the dividend. Considering the increase in profitability, (indiscernible) 20%, why are you increasing the dividend but only 7%? I mean, are you -- considering you don't have any capital problems. So that's my first question.

The second question is related to private banking. If you could give us a measure of the non-recurring revenue, just for our models.

Then the third one is related to NewFinance Capital Corp. (indiscernible) 300 million inflows. You mentioned that the new commodity product has managed 370 million or thereabouts. Does that mean that we've seen outflows in NewFinance or is it just not comparing apples with apples? Thank you.

MICHAEL DOBSON: Yes. The dividend -- I will deal with the first and third. Jonathan, will you pick up the private banking one?

The dividend -- we have said before, we want a progressive dividend policy in this firm. That's what we are following. I guess we first started increasing the dividend a couple of years ago, as Jonathan said earlier. We've had progressive increases now for the last few years. We'd like to maintain that if that's the way we can develop our business. We're not looking to make substantial jumps; we are looking for a progressive policy in line with the profitability of the Company and taking into account the gross finance position. I guess you could say we are relatively conservative, in view of the group's financial position, but that is the judgment we take and that's the judgment of the Board.

On the third point, not all of that 370 million in the (indiscernible) fund came in since we acquired NewFinance. It was an existing fund. It's growing rapidly. Quite a lot of new business has come into the commodities fund, but that is not the only fund that has attracted business to NewFinance Capital.

In terms of flows, there have been some outflows. There are some clients who, as you would expect, prefer NewFinance as an independent company -- maybe competitors of Schroders who didn't want necessarily to use NewFinance now that it's owned by Schroders, but that has been relatively small, and it has been outweighed by the inflows to give a net number of positive 300 million, but not all in commodities.

UNIDENTIFIED COMPANY REPRESENTATIVE: But also to remember that we have $[11] million of additional money under management through a joint venture with BBVA. That had not consolidated, if I'm correct, so we have additional 400 there. So if only net results of inflows and outflows is positive for 350 million, but we have an additional 400 million in the joint venture. The joint venture will become very significant because after the acquisition has been confirmed or negotiated and there is going to be a major retail launch in Spain at the end of September, according to the new regulation. Even the power of a distribution (indiscernible) retail -- that could be extremely significant, even if having a 50-50 from a statutory point of view, we don't consolidate the number, even if we manage them.

MICHAEL DOBSON: I think that's an important point. So, there is an addition -- a joint venture with BBVA where we do not include the assets. So, when I said 1.7 billion pounds in front of hedge funds, that excludes that joint venture. There's one other joint venture we have where we do not include our assets, which is in China, as you know, where we have $1.25 billion under management in Chinese retail. It's one of the most rapidly growing Chinese joint ventures. It's six months old, very successful. We do not include any of those of flows on assets in our AUM, again because it's a joint venture.

UNIDENTIFIED COMPANY REPRESENTATIVE: We raised about over 700 million, almost US$800 million in the new funds in the spring in China. (multiple speakers) -- not including the data.

MICHAEL DOBSON: Yes.

JONATHAN ASQUITH: On the private bank, the principle potentially non-recurring element is transactional banking fees, which were about 3 million pounds higher in the first half of this year compared to the first half of last. I'm not saying that they won't recur, but being transactional in nature, you (indiscernible).

UNIDENTIFIED AUDIENCE PARTICIPANT: When you say transactional in nature, what do you mean by that, just so I understand whether we need to put some of that in our numbers?

JONATHAN ASQUITH: These are fees associated with major customer facilition financings, which are risk-free or very low-risk, from our point of view, but quite short duration.

UNIDENTIFIED AUDIENCE PARTICIPANT: But is it a business that you are pursuing as -- (multiple speakers)?

JONATHAN ASQUITH: Yes.

UNIDENTIFIED AUDIENCE PARTICIPANT: Okay, thank you.

MICHAEL DOBSON: Philip, I think (indiscernible)?

UNIDENTIFIED AUDIENCE PARTICIPANT: Yes, just a couple of rather low-grade questions really. Could you give us a pounds (indiscernible) pence number for performance fees in the first half? That would be helpful.

JONATHAN ASQUITH: 4.6 million pounds.

UNIDENTIFIED AUDIENCE PARTICIPANT: 4.6? Thank you. Was there anything funny in Group in the second quarter? Because the first was obviously very strong, and I expect the second to tail away but the overall contribution dip now is expected. I just wondered if that was my mistake. Was anything going on there?

MICHAEL DOBSON: Very strong gains in C capital in the first half of the year, and as the market sold off, we gave some of that back.

UNIDENTIFIED AUDIENCE PARTICIPANT: Thirdly, on the regulatory company, you've got this sort of quasi-regulatory capital component that you explained increased to a lot in the first half of this year. Can we say some of that just simply comes from being retained in subsidiaries? Can we expect that to dividend (indiscernible) future and that 250 million to reduce slightly or will it tend to remain embedded there?

MICHAEL DOBSON: You can certainly expect what's there to be dividend up. The problem is -- it's quite a nice problem to have -- is they continue to make profits; it keeps repression itself. I suppose what's really changed is, under IFRS, you now, instead of providing for dividends in the accounts of the year in which you earn the money, you've now expensed the dividends in the year which you actually pay them. So we've got a bit of a sort of one-off timing change here in reporting, but it's got no real difference to the underlying substance.

UNIDENTIFIED AUDIENCE PARTICIPANT: Thank you very much. Very helpful.

MICHAEL DOBSON: Somebody wants to ask me a question about gross and net flows, I know.

CHRIS SMITH, ANALYST, ORIEL SECURITIES: Chris Smith, Oriel Securities. Just a question about the UK subset in the institutional side. You mentioned it is one of the reasons why there are some other outflows. Is this as a result of the historic performance problems you've had, or have there been new performance problems which have created this increase in outflows?

MICHAEL DOBSON: No, the outflows in the UK have been predominantly UK [balanced] nowadays, so that's an industry trend that we have discussed before, and obviously it has affected other people. We' still have a good UK balanced book of business, by the way, but we are seeing outflows there.

On the performance side, it's a subset of our UK equities business. Two-thirds or three-quarters of our UK equity strategies are performing extremely well, but there's a small element which has done less well. That is what has impacted -- that and the Japanese equities are what has impacted that pie chart of performance, three-year performance that I showed you earlier.

JOANNE NADER: That's a recent performance?

MICHAEL DOBSON: Well, it's a three-year number, so it's not -- (multiple speakers) -- but --.

JOANNE NADER: That will obviously remain in those figures for a while?

MICHAEL DOBSON: Well, as half years fall away, it can change, and I mean, we think it will change. We think that 58 will go back up again.

[Suanna]?

UNIDENTIFIED AUDIENCE PARTICIPANT: Just a couple of follow-up questions. Jonathan, I was wondering if you could expand on the gross and net flows, and ex-ing out those switches? Then also (indiscernible) you mentioned the Spanish regulatory change affecting the sort of hedge funds. I'm just wondering if you have any sort of views on -- the FSO has sort of said that they think that fund-to-fund could be sold to regional investors. Obviously, that tax situa-

tion isn't accommodative in the UK but just on the outlook for a sort of legislative change (indiscernible) an expansion of the retail market for hedge funds and what that would mean for a new plan at Capital.

JONATHAN ASQUITH: (indiscernible) answers that one first; I will just get prepared to answer yours.

UNIDENTIFIED COMPANY REPRESENTATIVE: The Spanish changes are unique at this stage in their capability to a individual retail investors. Elsewhere in Europe, there is a bit more flexibility in the wealth management segment (indiscernible) the private wealth segment, but there are tax disadvantages still if you get out of those specific rules.

In Germany, we can do more but that is applied generally through the issuance of notes, and notes or bonds that are then subsequently in invested in the (indiscernible) hedge fund.

In Italy, it is possible to expand it, and we are actually analyzing the possibility of having a local speculative SGR, which is a requirement (indiscernible) in Spain for a growth business but I wouldn't really define it retail; I would define it still more wealth management in the way in which collaborations happen (indiscernible) investments allowed for each investor, etc.

The UK seems to be the most promising. It depends on the final outcome of the FSA analysis that is going to be delivered probably in January. If that happens as it seems to be going, then that could be a major opportunity for (indiscernible) fund. A personally feel (indiscernible) fund is much better suited to an individual investor than single-strategy hedge funds. You can build much more consistent and repeatable risk/return relationship than we've seen with strategy. It's a different investment technique rather than a (indiscernible) class and provides a good alternative to other fixed-income or equity absolute-return products.

JONATHAN ASQUITH: A word on client flows -- thank you, (indiscernible). There's been a lot of comments about the apparent rates of churn in traders' assets, and I have become concerned that it may be the basis on which we report them that is causing a false impression of the turnover in the business, so I just want to have a brief discussion with you, as much as anything else, representing the analyst community, about what we currently do and some other ways in which we might look at the reporting of (indiscernible), particularly (indiscernible) retail.

So if you look at the first six months of this year, we reported inflows of -- let's do outflows -- outflows of 11.7 billion in retail, inflows of 14, against a book with an average size during the period of just under 40 billion pounds. Now, on any basis, that is a very, very substantial rate of turnover, a great tribute to our sales force on the one hand, but a curious comment on the longevity of people's relationship with retail funds.

What is really going on here? Well, this slide sets out -- and you'll find it at the back of your pack -- the basis on which we currently report gross and net flows. So in institutional, flows from the same client within the same calendar month are netted. Inflows and outflows from same clients in different months are not netted. As a memorandum item, existing client flows contribute to approximately 50% of outflows, and that's because cash flow [withdraw] by clients still comes out of the funds.

In retail, we had a much more difficult problem. Because our retail model is very heavily to sugar-based, we cannot see the end client. Because we cannot prove that the end client is switching from one fund to another, we treat every retail flow as a redemption or as an investment. So, we don't net even within the same month through distributor relationships. We don't really net anything except institutional transfers, which is extremely rare. The result is that the figure that we report for turnover in the retail is the largest figure you could possibly report. Whilst other bases for doing it not doubt would reduce that figure more than you might be entitled to, there needs to be a balance struck somewhere along here. So, one of the ways -- we might look at alternative ways for dealing with this netting issue.

Now, in institutional, you could look at net inflows not just in the calendar month but across the period. It's just the relationships are long-term. Sometimes they move into cash flow, transitioning from one mandate to another. It wouldn't make a tremendous a lot of difference, frankly. We probably will work up some figures on it but I would be surprised if it had effect of more than 8 or 900 million of the total institutional flows for the half-year.

In retail, on the subadvisory and branded funds, you could look and indeed we have looked at netting inflows and outflows by region for the same distributor. So if you take the example of Deutsche Bank, they run a nonlimits account here with us. We cannot see what goes on underneath that account. We have a different account with them in relation to Asia. What we're not trying to do is net flows in Europe against flows in Asia, because that clearly can't relate to the same client. But what we have looked at is netting within region by distributor.

Another way of sort of a sense-checking what is going on is not to net by distributor at all but to net by fund and see what the net flows in the underlying funds are. We've looked at both these bases in relationship to the first half of 2006, and the results are really quite striking.

So on a gross basis in the first half of 2006, we had retail inflows of 14 billion and outflows of 11.7 billion. If you net those by distributor relationship, by region over the same period, they collapse. They (indiscernible) 30% to the headline number. So instead of being 14 and 11.7, they become a 5.8 in, 3.5 out. The difference between the two numbers is obviously still the same -- 2.3, the net flow. But the level of noise in the turnover statistics drops very substantially.

There's as a sense check. We did look at doing this on the basis of closing underlying funds as well. So we've netted flows by fund, by individual retail fund over the period, ignoring who was doing the flowing. Again, that headline, 14 billion in and 11.7 out, drops this time by 60% to 6.7 in, 4.4 billion out.

Very few asset-management companies report gross flows. There is no real convention about how you do these calculations, and your ability to do them is crucially dependent on your relationship with the end investor. As a result, in the past, we've been perhaps (indiscernible) in the assumptions that we've applied.

The only measure that everybody knows is this one. It's the one the majority of asset management companies use. They just give you the net flows by channel. Some of them don't even divide it by channel. Retail, net in, 2.3; institutional out 4.6; private banking in 0.3; net change in 2. When you divide that by a total stock of assets in the sort of 120 billion level, it looks remarkably stable.

Now, we will go on considering, in the second half of this year and perhaps discuss with some of you, what is the best way of looking at this. But our feeling is that the we way in which we've reported it in the past has given an unnecessarily and indeed a misleadingly radical view of the turnover in underlying assets for Schroders. It is certainly not one which is based on the rate of change of the assets through our distribution relationships. Fundamentally, since we can't see the end clients, the distributors are the clients from our point of view.

So we will carry that a bit further but I think this may give some way to reducing some of the slightly hysterical comments on the level of turnover, particularly in the resale business over the last few years.

UNIDENTIFIED AUDIENCE PARTICIPANT: Could I just ask a follow-up question? The implied longevity of the relationship comes up a lot when you make those adjustments. Would you still say that, given the changes you're making in distribution in Asia and Europe, that it can come up further from that on that sort of measured basis, the change in the measured basis?

JONATHAN ASQUITH: I think we believe it can. Some of the changes I think will just give us greater visibility, but others, like the increasing use of insurance as a wrapper, perhaps an element of the insurance story that we didn't talk about earlier on and therefore getting more involved in long-term savings products, definitely has an effect on longevity.

UNIDENTIFIED COMPANY REPRESENTATIVE: If I can, I think we spoke about this before, but sometimes, the worst longevity, in absolute terms and not in reporting terms, is with end retail investors in Asia, in places like Korea and Taiwan, that can (indiscernible) out six months. The best client longevity is in insurance packaged products that have a life cycle of (indiscernible) packaged products, that have a life cycle up to 10, 11, in some cases even 12 years. What we're doing is working more in the packaging side, going more into what the UK is called the advisory side, which is the more retail end of the markets through intermediaries, working more through commercial banks and insurance companies to reach the retail investor in Europe -- and on the contrary, in Asia, going more into the private banking than the wholesale because contrary to (indiscernible) in Asia, the private banking has a better longevity.

So on a weighted average, net of this accounting division, we can increase, in my view, substantially, the weighted average actual longevity. But they are already much better than some analysts have reported, in terms of client longevity versus fund longevity. And they are very close to the industry standards if you look (inaudible).

BRUCE HAMILTON, ANALYST, MORGAN STANLEY DEAN WITTER: Bruce Hamilton. A couple of quick questions if I may? (indiscernible) U.S. business you've already started to have some success on. What are the margins on that business like? You are paying a bit more out to distributors, so should we expect that may put a bit of pressure on retail margins over time or is it pretty similar?

Secondly, in terms of the institutional book, also you've talked about the areas where you have some weakness. In terms of the proportion of the book, these Japanese or pan-Asian equities, and as you get -- if you could give us some sense of the (indiscernible) one-third of the book? Then, this UK subset that's performing sort of weaker, what exactly is that subset? Is it UK income? Is it UK growth? Just to understand what the sort of product area is.

MICHAEL DOBSON: (indiscernible) pick up on the U.S. intermediary (indiscernible).

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, in the U.S. intermediary market, which is obviously a very competitive and mature market, the margins net are slightly lower then they are in Europe and in Asia. They are very standardized and on a weighted average, I would expect them to be probably 15, 20 basis points lower than the one we experience in other parts of the world. They are, however, pretty healthy margins and they come with lower costs. A lot of the business can also be sub-advice, and when don't have a lot of the administration and marketing costs related to it. So net/net, while the gross could be lower and impact marginally our gross basis point (indiscernible), the net profitability is not influenced by it and it will increase in scale.

MICHAEL DOBSON: On the UK, as I said before, three-quarters of our UK business is doing very well. Three-quarters of our UK equity strategies are performing in most cases in a very strong category. About a quarter is performing less well. We are talking about maybe 6 billion in that area. I'm not saying we expect to lose a lot of business there. I'm saying that is why that 58% number was lower than it was when we talked six months ago on the performance pie chart.

On the Japanese part, do you want to pick that one up, Jon?

JONATHAN ASQUITH: Yes, if you add Japanese institutional and Pan-Pacific institutional, which are the areas that have suffered from Japanese institutional performance, together you get to between 10 and 11 billion pounds. So if you add that together with the figure that Mike gave you, you are talking 13%, something like that.

UNIDENTIFIED COMPANY REPRESENTATIVE: I just want to add one additional word on the UK issue. Those strategies, for example, in the most recent quarter, were both ahead of benchmark and were first quartile on the data that we have to date from [KATS]. So to give you an idea of the scale of the problem, it is more an issue of having not net client objectives, rather than having seriously fallen-behind benchmark. The client obviously don't come to us just to deliver an index rate of return; they want us to deliver index plus 2 or some other number. So this is an issue of having fallen into the territory of being underneath objective, rather than a deep performance issue. It really does relate to past years rather than this year.

MICHAEL DOBSON: Any other questions? Okay, thank you very much.

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LOAD-DATE: August 19, 2006

TAB 12

Merrill Lynch International Investment Funds

Prospectus

2 October 2006

BlackRock
Merrill Lynch
Investment Managers

Contents

Introduction to Merrill Lynch International Investment Funds

Structure

Merrill Lynch International Investment Funds ("the Company") is incorporated in Luxembourg as an open-ended investment company and qualifies as a Part I UCITS (Undertaking for Collective Investment in Transferable Securities). It has an "umbrella" structure comprising a number of different Funds, each having a separate portfolio of investments. The Company has appointed BlackRock (Luxembourg) S.A. as its management company.

Listing

Shares of certain Classes of all Funds are, or will be, listed on the Luxembourg Stock Exchange.

Choice of Funds

As of the date of this Prospectus, investors are able to choose from the following Funds of Merrill Lynch International Investment Funds:

Fund		Base Currency	Additional Dealing Currencies	Bond/Equity or Mixed Fund	Dividends Available
1.	Asian Dragon Fund	USD	GBP, EUR	E	No
2.	Asian Tiger Bond Fund	USD		B	Yes
3.	Asia-Pacific Real Estate Securities Fund*	USD	EUR, Yen	M	Yes
4.	BRIC Fund*	USD	EUR	E	No
5.	Conservative Allocation Fund (Euro)	EUR	USD	M	Yes
6.	Conservative Allocation Fund (US Dollar)	USD	EUR	M	Yes
7.	Continental European Flexible Fund	EUR	EUR, GBP	E	Yes
8.	Dynamic Reserve Fund*	USD	EUR, GBP, Yen	B	Yes
9.	Emerging Europe Fund	EUR	GBP, USD	E	No
10.	Emerging Markets Bond Fund	USD	EUR	B	Yes
11.	Emerging Markets Fund	USD	EUR	E	Yes
12.	Euro Bond Fund	EUR	USD	B	Yes
13.	Euro Corporate Bond Fund	EUR		B	Yes
14.	Euro Reserve Fund	EUR		B	No
15.	Euro Short Duration Bond Fund	EUR		B	Yes
16.	Euro-Markets Fund	EUR	USD	E	Yes
17.	European Focus Fund	EUR		E	No
18.	European Fund	EUR	USD	E	No
19.	European Growth Fund	EUR	USD	E	No
20.	European Opportunities Fund	EUR	USD	E	No
21.	European Real Estate Securities Fund*	EUR	USD, Yen	M	Yes
22.	European Value Fund	EUR	GBP, USD	E	Yes
23.	Fixed Income Global Opportunities Fund*	USD	EUR	B	Yes
24.	Global Allocation Fund	USD	EUR, GBP	M	No
25.	Global Bond Fund (Euro)	EUR	USD	B	Yes
26.	Global Bond Fund (US Dollar)	USD		B	Yes
27.	Global Capital Securities Absolute Return Fund	EUR	USD	B	Yes
28.	Global Dynamic Equity Fund	USD	EUR, USD	E	No
29.	Global Enhanced Equity Yield Fund*	USD	EUR	E	Yes
30.	Global Equity Fund	USD	EUR	E	Yes
31.	Global Focus Fund	USD		E	No
32.	Global Fundamental Value Fund	USD	EUR	E	No
33.	Global Growth Fund*	USD	EUR	E	No
34.	Global High Yield Bond Fund (Euro)	EUR	USD	B	Yes
35.	Global Opportunities Fund	USD	EUR	E	No
36.	Global Real Estate Securities Focus Fund*	USD	EUR, Yen	M	Yes
37.	Global Real Estate Securities Fund*	USD	EUR, Yen	M	Yes
38.	Global SmallCap Fund	USD	EUR	E	No
39.	Greater China Fund*	USD	EUR	E	No
40.	India Fund	USD	EUR, GBP	E	Yes
41.	Japan Focus Fund*	Yen	EUR, USD	E	Yes
42.	Japan Fund	Yen	EUR, USD	E	No
43.	Japan Opportunities Fund	Yen	EUR, GBP, USD	E	No
44.	Japan Value Fund	Yen	EUR, GBP, USD	E	No
45.	Latin American Fund	USD	EUR, GBP	E	No
46.	Local Emerging Markets Short Duration Bond Fund*	USD	EUR	B	Yes
47.	New Energy Fund	USD	EUR, GBP	E	No
48.	North American Real Estate Securities Fund*	USD	EUR, Yen	M	Yes
49.	Pacific Equity Fund	USD	EUR, GBP	E	No
50.	Sterling Reserve Fund	GBP	GBP	B	No
51.	Strategic Allocation Fund (Euro)	EUR		M	No
52.	Strategic Allocation Fund (US Dollar)	USD		M	No
53.	Thailand Fund*	USD	EUR	E	No
54.	UK Focus Fund	GBP		E	No
55.	United Kingdom Fund	GBP	EUR, USD	E	No
56.	US Basic Value Fund	USD	EUR, GBP	E	Yes
57.	US Dollar Core Bond Fund	USD	EUR	B	Yes
58.	US Dollar High Yield Bond Fund	USD		B	Yes
59.	US Dollar Low Duration Bond Fund	USD	EUR	B	Yes
60.	US Dollar Reserve Fund	USD		B	No
61.	US Flexible Equity Fund	USD	EUR, GBP	E	No

Fund		Base Currency	Additional Dealing Currencies	Bond/Equity or Mixed Fund	Dividends Available
62	US Focused Value Fund	USD	EUR, GBP	E	No
63	US Government Mortgage Fund	USD		B	Yes
64	US Growth Fund	USD	EUR	E	No
65	US Opportunities Fund	USD	EUR	E	No
66	US SmallCap Value Fund	USD	EUR	E	No
67	World Bond Fund	USD		B	Yes
68	World Energy Fund	USD	EUR, GBP	E	No
69	World Financials Fund	USD	EUR	E	No
70	World Gold Fund	USD	EUR	E	No
71	World Healthscience Fund	USD	EUR	E	No
72	World Income Fund	USD	EUR	B	Yes
73	World Mining Fund	USD	EUR, GBP	E	No
74	World Technology Fund	USD	EUR, GBP	E	No

* Fund not available for subscription at the date of this Prospectus. Such Funds may be launched at the Directors' discretion. Confirmation of the launch date of these Funds will then be made available at the Investor Service Centre. Any provisions in this Prospectus relating to any one of these Funds shall only take effect from the launch date of the relevant Fund.

B Bond Fund

E Equity Fund

M Mixed Fund

An updated list of those Funds offering Additional Dealing Currencies, Hedged Share Classes, Distributing and Non-Distributing Share Classes and UK Distributor Status Share Classes is available from the Company's registered office and the Investor Service Centre.

General

If you are in any doubt about the contents of this Prospectus or whether an investment in the Company is suitable for you, you should consult your stockbroker, solicitor, accountant, relationship manager or other professional adviser.

The Directors of the Company, whose names appear on page 5, are the persons responsible for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

No person has been authorised to give any information or to make any representations other than those contained in this Prospectus, the documents mentioned herein and any brochures that are issued by the Company as substitute offering documents.

It should be remembered that the price of the Shares of each of the Funds can go down as well as up. Changes in the rates of exchange between currencies may cause the value of Shares, expressed in their Dealing Currency(ies), to go up or down. Accordingly, an investor may not receive back the amount he or she invested.

All decisions to subscribe for Shares should be made on the basis of the information contained in this Prospectus which is issued by the Company and in the most recent annual and (if later) interim report and accounts of the Company which are available from the registered office of the Company. Information updating this Prospectus may, if appropriate, appear in the report and accounts.

This Prospectus may be translated into other languages provided that any such translation shall be a direct translation of the English text. In the event of any inconsistency or ambiguity in relation to the meaning of any word or phrase in any translation, the English text shall prevail, except to the extent (and only to the extent) that the laws of a jurisdiction require that the legal relationship between the Company and investors in such jurisdiction shall be governed by the local language version of the Prospectus.

Statements made in this Prospectus are based on the law and practice currently in force in the Grand-Duchy of Luxembourg and are subject to changes in such law.

Distribution

This Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. Details of countries in which the Company is currently authorised to offer Shares are contained in Appendix D. Prospective subscribers for Shares should inform themselves as to the legal requirements of applying for Shares and of applicable exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile. US Persons are not permitted to subscribe for Shares. In some countries investors may be able to subscribe for Shares through Regular Savings Plans. Under Luxembourg law, the fees and commissions relating to Regular Savings Plans during the first year must not exceed one third of the amount contributed by the investor. These fees and commissions do not include premiums to be paid by the investor where the Regular Savings Plan is offered as part of a life insurance or whole life insurance product. Please contact the Investor Service Centre for more details.

2 October 2006

Management and Administration

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Grand Duchy of Luxembourg

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Legal Advisers
Linklaters Loesch
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Paying Agents
A list of Paying Agents is to be found on page 40.

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